

[Handwritten: John F. Starn 3/15/02 10]

Draft Remarks for McKinsey Consulting

Thank you for inviting me to be here with you this afternoon. I particularly want to thank Harry Robinson and Byron Augeste who helped organize today's "town hall."

This is very impressive group. You are members of one of the leading business consulting firms in the world and future CEOs, presidents, and top executives of business and industry. Many of you are also my constituents.

There are many, many issues that we could talk about today. But given the short amount of time we have together, I'd like to briefly address just a couple of those that are making headlines: namely, the economy and, to a lesser extent, the situation in Iraq. We can then have a discussion on any issues you're interested in.

Budget/Economy

This week, President Bush submitted a \$2 trillion dollar budget to Congress for the next fiscal year, which begins on October 1. Unfortunately, we haven't even finished our work for this fiscal year, so it's fair to say budgetary chaos has taken hold in the Capitol. We have unrealistic budget caps, unrealistic budget projections, and an Administration that now seems to think that deficits and an exploding national debt are in our national interest.

I've been in Congress for almost 30 years, and after a while it's easier to see patterns emerge. A generation ago, President Reagan came to office promising to cut taxes, increase military spending, and – the then holy grail of Republican politics – balance the budget. He did cut taxes and increase defense spending, but no budgets were balanced.

Instead, deficits and debt spiraled out of control. \$100 and \$200 billion dollar deficits became routine. Between the beginning and the end of the Reagan presidency, the annual deficit almost tripled. And so did our gross national debt -- from \$1 trillion in 1981 to to \$3 trillion by the time President Reagan left office.

And things grew even worse in the first Bush Administration, when a record deficit of \$290 billion was reached.

I don't say this as a partisan, but the fact is that the Clinton Administration—led by Treasury Secretary Bob Rubin—decided that deficits and debt were threatening our economic well-being. So in 1993, tough anti-deficit policies were adopted. A combination of tax increases, spending cuts, and a growing economy did what many believed was improbable, if not impossible—deficits turned into surpluses.

By 2000 our nation was enjoying annual surpluses, and estimates were that we would regularly have annual surpluses of \$300 billion or more. In fact, the projections for the next ten years indicated that, not counting surpluses in the Social Security Funds, the government would run almost \$3 trillion in surpluses.

We actually were debating, just three years ago, whether these huge surpluses would present their own set of problems for the economy.

Well, we don't have to worry about that anymore. If there are any baseball fans here, you'll remember Yogi Berra's famous saying that "It's deja vu all over again." When it comes to deficits and budget policy, it really is deja vu all over again.

President Bush pushed through his 2001 economic program—exactly 20 years after the Reagan economic experiment—promising that we could cut taxes, increase defense and other spending, pay down the debt, and strengthen social security.

Congress passed his package, and, if you care about deficits and debt, the results have been disastrous. We've gone from projected \$300 billion surpluses back to \$100 billion annual deficits. Remember the \$3 trillion surplus I mentioned a few minutes ago? Now it's projected to be \$2 trillion in new deficits.

We're no longer paying down the debt; we're creating new debt. We're not safeguarding the Social Security and Medicare programs—we're robbing them of the assets they'll need to make sure benefits are there when middle-age workers eventually retire.

Everyone knows that long-term, and by long-term I mean 50 years, the Social Security faces economic challenges. But I want to mention something that most Americans don't realize.

If the money that's withheld in paychecks—the FICA withholdings—are really dedicated to Social Security, the program will be in great shape until at least 2041. But if the money the Administration is borrowing from those paychecks isn't repaid, the Social Security system will face a crisis in 2017.

If that comes to pass, we should all be ashamed, because it's unnecessary and easily avoided. We simply have to act responsibly and keep faith with the millions of Americans who pay into the Social Security system each month.

Instead of confronting this reality, President Bush is now calling for at least \$700 billion in new tax cuts over the next decade. These tax cuts aren't designed to stimulate the economy—they are simply designed to cut taxes.

If passed, we will fall deeper into debt that will be passed on to our children, borrow even more from the Social Security program, and ignore the pressing demands that the war on terrorism and the war on Iraq present. And it provides nothing for other pressing needs, such as improving our nation's education or health care systems.

I know this may sound partisan to some of you, but that's not my intent. I'm just mystified by the policies that President Bush and many Republicans are fighting for. We worked hard to fix the problems created in the 1980s, and now we are creating those exact problems all over again.

And one of the strangest developments is that Republicans—who for years passionately argued for balanced budgets—now deride as “Rubinomics” the Clinton Administration programs that actually balanced the budget. They now argue that deficits are good and surpluses are bad.

It wasn’t too long ago that President Bush was promising to run the government more like a corporation. Unfortunately, his Administration is running it more like Enron than like McKinsey.

Iraq

I know many of you are interested in Iraq. I am very troubled by the Bush administration’s handling of that situation.

I’ve spent a lot of time over the last few months talking to Middle East experts about Iraq. They’ve come to the conclusion — and I agree — that Saddam Hussein poses an uncertain, but potentially catastrophic threat. We know that he has chemical and biological weapons that he has used on his own people. It is likely that he is trying to build nuclear weapons as well.

That is why, last fall, I supported a Democratic resolution that would have authorized the president to go to the United Nations to disarm Hussein — either peacefully or, as a last resort, through force. If the United Nations failed to act, it would have required the president to come back to Congress for authorization to take unilateral action. Not surprisingly, that resolution failed on basically a party-line vote.

We then had to vote on the final resolution which authorized President Bush to use any means necessary to disarm Saddam Hussein -- with or without the UN. While I hoped we would follow the course of action of the first President Bush and build an international coalition, I decided to vote in favor of this resolution for two reasons: (1) I thought the threat of the US acting alone would prompt the UN Security Council to act lest it become irrelevant -- and I think the vote accomplished this goal; and (2) I wanted to send a clear message to Saddam Hussein that he needed to comply with the UN resolutions passed at the end of the Gulf War or face serious consequences.

I am concerned, however, that the administration is too eager to act unilaterally and has not done enough to make its case to either the American people or the international community. This is in marked contrast to its position regarding North Korea, and makes for a very confusing foreign policy.

I again want to thank you for inviting me here, and I’ll be happy to answer your questions.